The Coming Inflation Threat: A Complete Guide on Protecting Yourself with Gold and Silver

A Global Intelligence report

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A *Global Intelligence* report

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Introduction

Thursday, August 27, 2020. Washington, D.C. Federal Reserve Chairman Jerome Powell stepped up to a rostrum and changed your financial life.

You don't know that yet, but you and I are already beginning to feel the impacts in our wallet. Every American is.

Already, the bond market is yelling "Fire!" but few are listening. The fire? U.S. Treasury bond yields have been rising at a quick pace of late. That doesn't mean much to most folks. But it's an indication that bond investors (they tend to be the smartest people in the room) are worried about what's coming.

And what they're worried about…is inflation.

To be sure, such worries have cropped up several times in the last 20 years or so, and each time those worries ultimately amounted to little. But this time, a different set of influences are at play. This time, well…things could be very different.

This time, American debt is a consequential issue. This time, money has flooded directly into consumer pocketbooks, fueling demand inflation that wasn't around previously. This time, the Federal Reserve finds itself in a precarious position as it tries to save Uncle Sam from a potentially debilitating debt crisis that would assuredly play through the U.S. dollar.

The one thing that's not different this time: gold.

The metal remains just shy of historical highs. That's because the gold market, like the bond market, recognizes problems are afoot. Which is why now more than ever, everyone should own some gold and silver as a tool for wealth preservation and inflation protection. As the rest of this decade progresses, gold and silver will preserve your purchasing power as the U.S. dollar struggles under growing global perceptions that America's financial house has no other option but to crumble at some point, likely before the end of the 2020s.

So, let's take a tour through the world of gold and silver so that you know all the options available to you for preserving your wealth. Some are riskier; some less so. This precious metals cheat-sheet will help you determine what options are best for the level of risk you're comfortable tolerating.

Sincerely, Jeff D. Opdyke

Editor, *Field Notes* and *Global Intelligence Letter*

About the Author: Jeff Opdyke spent 17 years writing about personal finance and investing for *The Wall Street Journal* and seven years as Executive Editor for *The Sovereign Society*, where he traveled the world to meet with politicians, economists, taxi drivers, and bellhops to better understand local economies, local consumers, and the politics that drive investments, currencies, and gold. He has written eight books on personal finance, global investing, and the rise of the consumer class outside the West. Jeff grew up in South Louisiana, but has lived in Dallas, Los Angeles, Seattle, and New York, among other places. He currently lives in Prague. Jeff is the editor of *Field Notes* and *Global Intelligence Letter* and is a regular contributor to *International Living* magazine.

A Major Threat to the U.S. Dollar (and Why You Need to Protect Yourself)

As D.C. prepped for the remnants of Hurricane Laura to pass through in August of 2020, Chairman Powell announced what many in the investment, financial, and economics community labeled a "major policy shift." That shift: Going forward, Powell announced, the Fed will stand down as inflation ticks up in America.

That doesn't sound like much, frankly. But it's huge.

Historically, the Fed has always wanted a bit of inflation. As Uncle Sam's handmaid, the quasi-governmental agency needs some inflation so that today's dollars are worth less tomorrow. That makes it somewhat easier for our debt-drunk uncle to (try to) repay all those trillions of dollars he owes.

To that end, the Fed has targeted a 2% annual inflation rate. Alas, for seven of the last 10 years, the Fed has failed in that mission. Inflation in those seven years ranged between 0.12% and 1.8%. That's good for me and you. It's bad for Uncle Sam.

As Chairman Powell's August message indicated, the Fed now wants to remedy its failures. And it sees now as a particularly opportune moment to let inflation erode the money in your wallet at a much faster pace. That's good for Uncle Sam. It's bad for me and you.

Why this moment? The pandemic and Congressional response to it.

America had debt problems long before COVID-19 invaded the country. But the pandemic changed the landscape. It shuttered the economy, prompting the worst economic contraction in modern history. It sent businesses into bankruptcy. It left millions of people unemployed and quickly draining savings accounts and retirements accounts. During that moment of extreme financial stress, Congress spent $3 trillion it didn't have shoring up the economy and the consumer. The Federal Reserve, meanwhile, stepped up and promised to print unlimited amounts of dollars. Indeed, it told Americans (and the world) that there is "no end in our ability to print money…and Congress has told us to."

Which gets us to where we are today: America swaddled in debt, no way to repay it all, and the Federal Reserve stuck letting inflation heat up as pretty much its only meaningful remedy for helping government manage its debts.

Alas, this is a proverbial "rock and a hard place" moment. Because America's debt is so monumental (we'll get to that in a moment) rising interest rates could both help and hurt Uncle Sam going forward. Either way, Main Street Americans are unavoidably in the line of fire.

20 Years of Spending Beyond Our Means

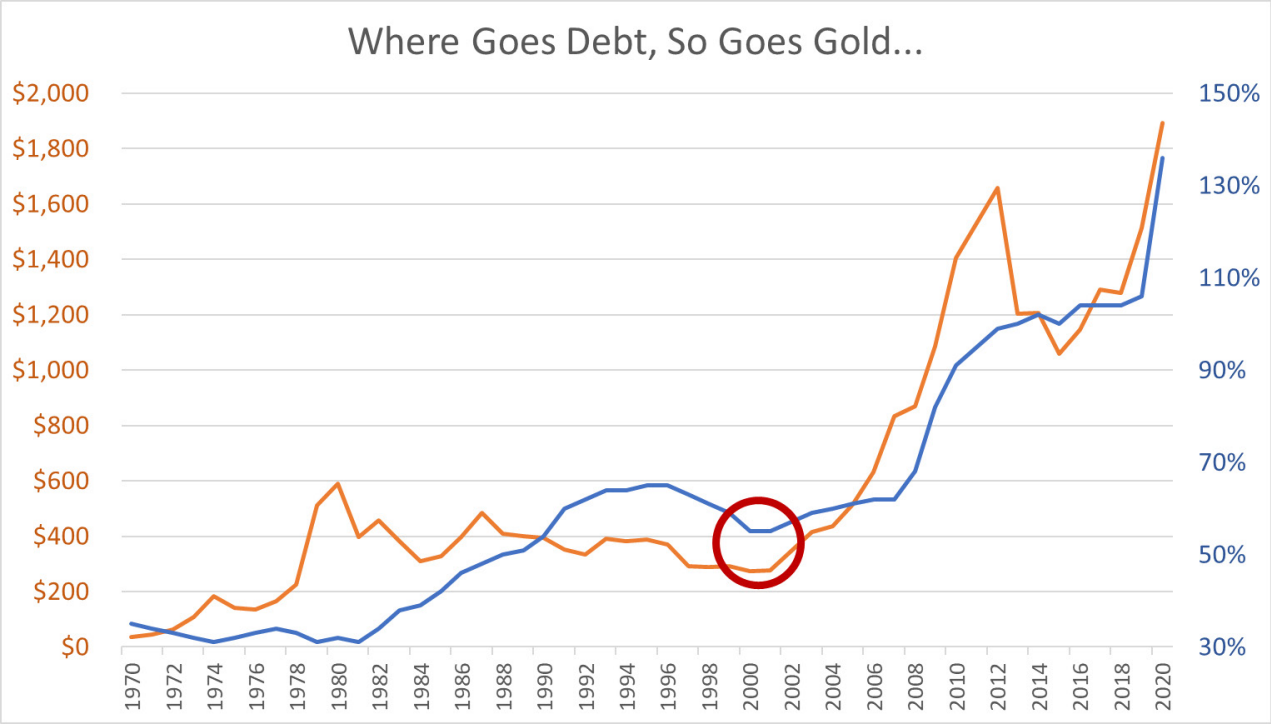
Before we get into the various ways to gain exposure to gold, I want to share a story 20 years in the making that helps explain our path forward…

As the new millennium arrived 20 years ago, America was coming off the longest period of economic expansion in U.S. history to that point—the 1990s.

One could legitimately argue—and I do—that the 90s ended the "American Century," the period of America's greatest achievements. Since then, it's been pretty much a slow grind downhill. Yes, we saw a long period of expansion in the wake of the Great Recession in 2007-2009, but that expansion was tepid and fueled entirely by ultra-low interest rates and all the free money the Fed and Congress were throwing around.

You don't build a solid economy on free money because that which is free is worth exactly what you pay for it.

Which is why at the exact moment America's financial future began to look bleak, gold woke up from a two-decade slumber that saw gold prices bounce around in a narrow range between about $250 and $500 per ounce. Suddenly, gold perked up. You can plainly see that moment in the red circle in this chart…



As America's debt-to-GDP began to ratchet higher in 2001 (the blue line), gold starts an epic ascent (the orange line). Debt and gold begin to pretty much shadow one another. Also notice, though, those years prior to 2000. Gold prices didn't do much relative to debt; in fact, they generally drifted lower. Why? The gold market didn't care because debt was never much of a problem for America; it remained well below 70% of GDP, widely considered a healthy number, particularly for the world's leading economy.

But then investors began to realize that debt, and America's profligate spending, *was* going to be a problem, regardless of the economy's ranking in the world. And so, trillions of dollars began flowing into gold—a trend that has persisted for two decades now.

It's a trend that shows no signs of abating because America's addiction to debts and deficit spending shows no signs of abating. As long as debt to GDP rises, gold will rise. It's serving as protection against what will very likely be a currency and/or debt crisis later this decade.

To understand why a crisis is not just likely but probable, you have to consider what options America has for confronting its debt. And that starts with understanding the size of the debt.

I am writing these words just as Congress is moving toward another $1.9 trillion in COVID-19 relief spending. That will push the country's total debt to about $30 trillion, or nearly 140% of GDP. Here's an analogy to give an idea of what $30 trillion really is: If you spend $1 million a day from the day you're born until the day you die at age 100, you will fully deplete your $30 trillion spending budget…in 822 lifetimes.

In short, $30 trillion is a number that can never be repaid. Here's why:

To pay down debt, a debtor needs to bring in more money than is necessary to fund their life. America, as one of the two largest economies in the world, cannot grow fast enough to pay the cost of running the country *and* reduce the amount of existing debt.

Indeed, Congress already operates on budget deficits every year, meaning it's borrowing money annually just to keep the lights on. That's like living your personal life on your salary, plus having to rely on Mastercard and American Express to cover all the extra spending you do every year…and not earning enough to pay down the balance you already owe to your credit-card company, so you just borrow even more.

Uncle Sam has largely been able to keep his house of cards from tumbling thanks to the Federal Reserve manipulating interest rates.

When debt wasn't a problem, the Fed willingly allowed inflation to erode the value of our dollars. That made it easier for Uncle Sam to repay his debt because the dollars he's borrowing might only require 90 cents to repay down the road.

But now that debt is a problem, Uncle Sam needs low rates, which is what the Fed has engineered for more than a decade.

Think about having an adjustable-rate mortgage on your house. For five years, your payment is $1,050 a month, and you're happy with that. But Year Six rolls around and the rate adjustments kicks in, and suddenly you're paying nearly $1,400 a month…and then the next year it's $1,450…and then $1,520, and so on.

Soon enough, the repayment burden is too much for your income to support and your house of cards crumbles.

That's Uncle Sam. His debt is so large now that higher interest will hurt. High interest rates will force him to borrow more money just to make payments on all his existing debts from years past.

The Fed knows that, but it also can't hold rates at 0% forever. Low rates are retarding economic growth because consumers and business cannot earn a safe return on cash. That, in turn, has created asset bubbles that are obese in stocks, bonds, and housing. It's a totally upside-down world.

And righting it is going to cause a great deal of pain somewhere in the system.

The gold market is betting "somewhere" is the U.S. dollar.

That is why we want some level of gold in our portfolios. How much depends on your

tolerance for risk and your feelings on the likelihood that America's debt is a crisis waiting on its moment. Because of the way I see dots connecting, I've put nearly 25% of my largest, multi-six-figure retirement account into gold. Separately, I also own physical gold in the form of bullion and collectible coins. I'm not suggesting you follow my lead—that might be extreme for some people. But at the very least I would recommend 5% to 10% of a portfolio be invested in gold.

Let's walk through some of the options you have.

The Only Gold ETF I Would Trust

Numerous ways exist to gain exposure to gold and silver, in either paper or physical form.

Let's start with the easiest path: ETFs, or exchange traded funds, since they tend to be the most convenient option (though not the best, as I will explain in a moment).

ETFs trade like shares of stock on a stock exchange. That makes them very convenient to own because they're so convenient to buy and sell. They typically hold physical bars of silver and gold or sometimes notes that denote ownership in some form. As such, ETFs represent, on paper, some fractional quantity of physical gold (in theory). They are, then, "paper gold" or "paper silver."

You can easily purchase ETFs in a standard brokerage account or through an investment account such as an IRA. As well, many 401(k)s offer a gold ETF or at least access to a so-called "brokerage window" that allows you to buy and sell traditional investments such as stocks and ETFs in your 401(k) account rather than picking from whatever narrower selection of mutual funds your employer allows.

The most famous of these ETFs is known simply as GLD, the ticker symbol for the SPDR Gold Trust, the largest of the gold ETFs. Frankly, there are better options, which I'll come to in a moment.

On the silver side, your options are a bit more limited. The biggest ETF is the iShares Silver Trust, or SLV.

Now that you know what silver and gold ETFs are, let me tell you that, frankly, I am not a huge fan of these investments when it comes to precious metals exposure. First and foremost: You do not own gold. You own shares of the trust. If an ETF were to collapse for whatever reason, your claim would not yield you ownership of the gold you thought you owned; it would ultimately earn you some fractional amount of dollars tied to whatever is left of the business.

There's also the fact that ETFs represent a type of risk I do not want in my portfolio in the event we slip into the kind of social, political, financial, or monetary crisis that would send gold prices racing higher. That risk is known as "counter-party risk."

See, the ETF you buy uses a system of custodians and sub-custodians to source and hold gold or silver. Yet custodial banks do fail. Sub-custodians fail. In many cases there are no written agreements in place, limiting an ETF's ability to recoup much of anything. Moreover, custodial insurance doesn't cover the full value of the metal.

Then there's the fact that gold is being borrowed and moved around as part of lending agreements.

Imagine a scenario in which something wonky happens in the world—a Western currency collapses; the U.S. plunges into a debt spiral; a political event threatens major, national boundaries and civil or global war. All, no doubt, are black swans (low-probability, high-impact

events). But in that moment, gold prices would very likely soar to unimagined levels.

All those lending agreements start to unravel as lenders call in their gold. But some lenders are borrowers, too—they've borrowed gold and turned around to loan it all. In a demand crisis, agreements are going to collapse, and all hell unleashes in the gold/silver ETF market. An ETF no longer owns what it thinks it owns, and it cannot make good on its promises, and the price for that ETF collapses even as gold prices are racing higher.

I would simply rather avoid that possibility by owning an ETF such as Sprott Physical Gold (PHYS).

The metal that Sprott owns is fully allocated and unencumbered. This means that Sprott's gold bars are held in Sprott's name, and they are not loaned out. They remain locked away and regularly audited in a Royal Canadian Mint vault—no risky private custodial banks or sub-custodians in the middle.

Moreover, ETF holders have the ability to request delivery of physical metal (for a fee) assuming they have the equivalent of a so-called London Good Delivery bar—basically 400 ounces. Now, most of us aren't going to have 400 ounces of gold, but the delivery option simply underscores the fact that Sprott unitholders own the underlying gold, not a claim on a trust.

Owning Physical Gold

This will always be the safest way to gain exposure to gold and silver: owning physical bars and coins. No institution or investment fund stands between you and your metals.

There are several ways to accomplish this, each with its own set of pros and cons. I will say that, from my perspective, the cons are far less worrisome than the possibility that an ETF collapses just at the moment you need it most.

Let's start with bullion and collectable coins.

These are two different things, though they can seem similar if not identical. Bullion is bars, coins, and ingots that are minted specifically to be a store of value. They're generally a pure form of the metal and stamped with their weight and fineness (the gold content). For instance, a gold Canadian Maple Leaf, one of the world's widely owned bullion coins, will note on its face a weight of between one gram and one ounce, and denote that it is 9999 fine, meaning it's as pure as gold can get.

Bullion is sold based on the "spot price" of gold, the ever-fluctuating market price you see quoted in the news or on investment websites. To that spot price, dealers will add an upcharge that varies from one seller to the next. By and large, you'll find the best prices on gold bars minted by refiners such as Valcambi, PAMP Suisse, Credit Suisse, and others. These are just basic gold bars, unaffiliated with national treasuries such as the U.S. Mint, the Royal Canadian Mint, Britain's Royal Mint, and others. These bars range in size from one gram to one kilo (about 35 ounces).

You can buy bullion all over the internet these days. Many of the popular sites include Apmex.com, JMBullion.com, BullionExchanges.com, and BostonBullion.com. I will tell you to shop around. Every dealer prices their gold differently, even when it's the same product. For instance, as I was writing this, I randomly searched for prices on a one-ounce gold bar from Swiss manufacturer Valcambi. The ones I found ranged in price from $1,806 to $1,822—the difference being the upcharge each dealer applied to the spot price. The same price differences apply to silver as well. So, it makes sense to shop around, if you're buying larger volumes.

Collectible Coins

Collectable coins are a bit different in that they are not bullion minted as a store of value, but instead were formerly used in trade, just like today's pocket change. That was back in a time when gold and silver were regularly fashioned into money for consumers to use to make purchases, or for nations and businesses to use in large quantities to fund trade.

Such coins go back thousands of years. For instance, I own a Sri Lankan gold coin that dates to the 10th century, and an Alexander the Great silver coin from about 320 BC that still looks like it was minted yesterday. I also own gold Austrian ducats, gold Mexican pesos, and gold Dutch guilders that are all from the early-20th century.

Some of these coins are only valued for their gold content, plus a bit of numismatic value. Others are entirely valued on their rarity, such as the Genghis Kahn gold coin I own from 1222 that is one of about 300 known to exist.

You will find these coins all over the internet, but be careful—many are fake, particularly on sites such as eBay. Your best bet is to buy them through sites such as Apmex, respected coin dealers, or auction sites such as Heritage Auctions. At Apmex and others you will find raw coins; at auction sites you will generally find graded coins, those that have been professionally graded by respected services such PCGS and NGC (and beware of grading companies that are not either of those two; others garner far less respect in the industry).

You will generally pay more for graded coins, particularly those with high grades. Depending on the coin, "high grade" is usually Mint State 65 to Mint State 70 (the highest score). Those coins regularly carry high numismatic value. Many common, graded coins in the low-60s are essentially regarded as bullion and typically trade at a 12% to 15% premium to the underlying gold content. Raw gold coins will sell at slightly smaller premiums.

If you shop around, you can find deals. For instance, as I was writing this, Apmex was selling $20 St. Gaudens Gold Double Eagles, one of the most beautiful gold coins in America's coinage, for just 10% over spot. The issue: The coins have been cleaned, which is a no-no for collectors. But if you just want nice coins for their gold content, 10% over spot is a good price.

The Risk of Coin and Bullion

The risk with bullion and coins, of course, is that you will have to personally store your metals. If you keep the metals at home, that exposes you to theft, loss, disaster, etc. To mitigate that, you might consider a bank safe-deposit box, though that comes with risks, too. In the event of gold confiscation or some other reason, the government could force banks to shut down for a period of time to open and inspect all safe-deposit boxes and take possession of all precious metals. (To be clear, I am not predicting that. I'm just laying out a potential risk factor.)

For me, where to store gold and silver is about diversification and mitigating risks. I have some gold in a bank safe-deposit box, and some elsewhere. Though I don't expect the bank will ever forcibly breach my safe-deposit box, who knows what norms are shattered in a crisis. As such, I want to know I have other gold and silver I can get at, if need be.

Bullion Storage: The Easy Solution to Physical Ownership

One way to deal with the storage issue is to own physical gold and silver without ever taking possession of your metals.

Again, there are several ways to accomplish this. Some are onshore here in the U.S.; others are offshore in highly safe and regulated destinations such as London, Vienna, and Singapore.

Which is best depends on your level of comfort in having some of your assets offshore.

I'll start with TIAA Bank.

TIAA is a U.S.-based bank that operates a metals investment program through which you can own gold and silver allocated specifically to you and which TIAA holds in your name with a third-party repository. Or, you can own an unallocated portion of a large pool of gold or silver, which TIAA also stores for you. The allocated pool imposes an annual fee to cover storage costs of 1.5% (gold) and 2.5% (silver). The unallocated pool imposes no storage fees.

The primary difference between allocated and unallocated accounts is that with allocated metal, you can request that TIAA deliver your gold or silver to you (for a fee). Unallocated gold is not deliverable. You would have to sell the metal in your account and take delivery of dollars.

Through Dallas-based JM Bullion, you can arrange for TDS Vaults, a well-respected metals-storage firm, to store your metal in highly secure locations in Las Vegas, New York, Toronto, Zurich, or Singapore.

Or you can go directly offshore yourself, as I have.

The Royal Mint in London, the Austrian Mint in Vienna, and the Australia's Perth Mint, among others, all offer the opportunity to buy gold and silver and then to store the metal in the mint's own vaults. You will pay a fee for this, of course. The Royal Mint, for instance, charges about $40 per quarter for up to $7,000 in metal value kept in its vaults. Prices go up from there.

Another option is to contract with a local bullion dealer that also offer storage services. One example is Bullion Star in Singapore, a highly regulated market. Through its website, you can buy the metals you want, in whatever form you want—coins, bars, ingots—and Bullion Star will store them for you in either Singapore or New Zealand. It will also provide you a photo of your metals and the purchase contract.

When you're ready to sell, you can execute a trade quickly and efficiently, and you can direct the proceeds to your bank account. The storage fee is between 0.09% and 0.59% per year, depending on what you own.

The primary question I hear when I mention offshore storage at the various conferences I speak at is: "Why do I care about storing my metals offshore when I can safely store them in the U.S.?"

My answer: Political and financial-system diversification.

Investing and saving are on some level about managing foreseeable risks.

Though the U.S. is a stable economy, that doesn't mean it is a risk-free economy. The most recent political cycle demonstrated some of the very real political risks that populate America today. Moreover, the country's current financial situation is, if not a house of cards then a house made of ill-fitting Legos. In a dollar or debt crisis, there is no telling what Uncle Sam will do to shore up the currency. In 1933, that meant confiscating gold.

If Uncle Sam decided to try that again amid a homegrown financial crisis, I'd want my metals in a jurisdiction where our debt-addled Uncle has no authority.

In essence, I see the storage of gold and silver overseas as a bit of prudence. It might never be an issue…until it is an issue.

Gold Savings Programs

I realize not everyone can dump thousands of dollars into precious metals in one fell swoop. If you can, great. If not, there is a less painful way to build up your exposure to gold and silver: a gold savings program.

These are a lot like the old Christmas Club accounts that were once quite common at banks and savings and loans. Through these gold savings accounts, you buy a regularly prescribed amount of gold on a monthly, quarterly, or semi-annual basis. You can arrange to have the metal delivered (for a fee) or you can have it tucked into storage with your other holdings. They're not widely available, but you will find them at the British and Austrian mints, and at the Perth Mint in Australia.

BullionVault, with offices in the U.S. and the U.K., offers a similar plan, as well. Every month, BullionVault will debit your attached checking account by whatever amount you select (minimum: $100) and buy that amount of gold for you. You're buying at the "London Price" published by the London Bullion Market Association, the world's leading bullion market, meaning it's pretty much the globally recognized price for gold at the moment. You'll pay a transactions fee of just 0.5% of the trade's value. The metal is stored in vaults in Zurich.

These can be a very convenient way to buy affordable sums of gold on a consistent basis. It's also an excellent and painless way to "dollar-cost average" your way into gold over time. With dollar-cost averaging, you're not dumping your entire sum into an investment at one moment and hoping you're paying a good price. Instead, you are buying at various prices across time—sometimes higher, sometimes lower. Academic research has shown that you tend to have a lower cost basis overall than you do if you buy all at once.

Digital Gold

First thing I should clear up—when I refer to "digital gold" in this section, I'm not talking about bitcoin, which has increasingly become known as digital gold.

I'm talking about real, physical gold held for you in a vault.

This is a relatively new product known as DigiGold from Britain's Royal Mint. For as little as £25 (about $35 as I write this), you can buy fractional pieces of a physical gold bar. You can buy and sell whenever you want, rather than on a prescribed purchase schedule. The benefit here is that this is a cost-effective way to own smaller amounts of gold.

Traditionally, if you buy small quantities of physical gold, you're transacting in grams and ounces. Those smaller denomination have been fabricated from kilogram bars that have been melted down and recast into smaller units, and then packaged. There's a cost to all of that. And it means that small-denomination gold can be quite expensive on a relative basis.

When gold sells for $1,735 per ounce, for example, a gram of gold is worth just under $58. But fabricated grams will sell in that moment for $94 to $100, depending on the dealer. Even at national mints, you'll pay in the $76 range, which is still a 30% premium to the value of the gold.

Such premiums imply that gold prices would need to rise to as much as $2,990 per ounce before your gram of gold is in the black.

With DigiGold, there are no fabrication charges because the gold you own is part of a kilo bar held by the Mint in its vault. As such, you pay a fee of just 0.33% over the price of gold in the moment you buy, plus annual storage costs of 0.5% plus value added tax. On £3,000 of gold (about $4,200), the storage fee would amount to £18 per year ($25).

When you want to sell, just log into your account and sell and have the proceeds sent to your bank electronically.

A note: While with digital gold you do own physical metal explicitly in your name, you cannot request the metal be sent to you, since you own pieces of entire kilogram bar. So, you will have sell and claim fiat currency as proceeds.

Precious Metals IRA

This option is specifically for investors who might not have a lot of spare, investable cash, but who do have cash in an Individual Retirement Account, or IRA.

The U.S. government allows investors to hold precious metals in an IRA so long as the coins or bars meet certain requirements. Gold must be at least 99.5% pure (or 995 fineness or greater), while silver must be 99.9% pure. Those regulations mean that an IRA can own gold American Eagle and American Buffalo coins, Canadian Maple Leafs, Chinese Pandas, Austrian Philharmonics, Australian Kangaroos, Mexican Libertad silver coins, and PAMP Suisse/Credit Suisse gold bars, among others.

However, just because Uncle Sam says it's okay doesn't mean all IRA providers will allow you to buy metals in your IRA. Many are not set up for that since they don't have metals-custody arrangements in place. The bigger, more well-reviewed players in precious metals IRAs include Goldco, Orion Metal Exchange, and Patriot Gold Group. If necessary, you can roll an existing IRA from one provider to another without triggering tax issues.

Be aware, however, that precious metals IRAs are generally more expensive to set up, they often require much larger initial deposits ($10,000 to $15,000 vs. a more normal $2,000), and their annual maintenance fees can be higher. So, pay attention to all of those factors in your research.

Mining Stocks

Finally, the most-leveraged way to invest in gold is to buy shares of mining companies. It's also the most volatile way.

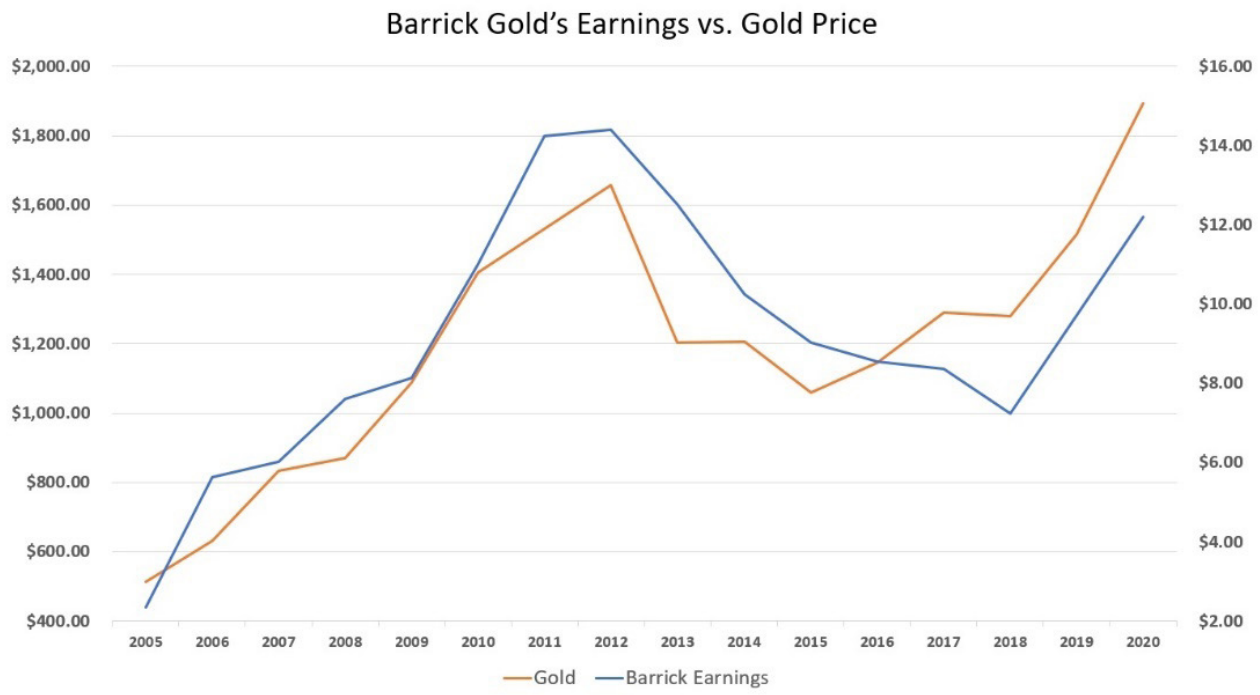
Mining companies are the publicly traded shares of companies listed on stock exchanges around the world. They're easy and convenient to buy, no different than buying exchange traded funds through a brokerage account. (You might not have access to them in some 401(k) plans, if your plan doesn't provide a brokerage window, but I'll come back to a solution for that in a moment.)

These are leveraged plays on gold prices.

A goldminer's biggest cost structure is the fortune spent on licensing and building a mine—a process that can take a decade or longer. Once a mine is operational, rising gold prices represent windfall profits. They flow to the bottom line, largely unimpeded by anything except additional taxes and royalty payments. As such, rising gold prices cause gold miner profits to soar, which results in soaring share prices and ever-fatter dividend payments. You can see the trend in the chart below with the annual earnings are Barrick Gold, one of the world's largest goldminers…

Barrick's earnings follow gold prices like a shadow. The stock followed suit, rising to $55 per share in the 2011 peak from about $18 in 2005. The same trend is underway again today. After bottoming out at just over $6 in 2015, Barrick's share price moved to $30 by the fall of 2020,

when gold was again peaking. As I write this, the shares are in the $25 range because gold has come off its peak as it prepares for its next march higher. Barrick, as usual, will make that march too.



To be clear, I'm not suggesting you run out and own Barrick Gold. I'm using the stock only to illustrate the degree to which gold prices steer goldminer profits and, ultimately, share price.

For most investors, the safer way to own goldminers is through an ETF focused on mining stocks. The mining industry is naturally risky. You face political jurisdiction risk, environmental activism risk, corporate risk, geologic risk…a lot of risks. Better to own numerous miners so that the risks of one are spread across the many. That will limit any potential damage that will occur in your portfolio if you hold just a single mining stock or two.

Two goldminer ETFs to consider are VanEck Vector Gold Miners (GDX) and iShares MSCI Global Gold Miners (RING). They are very similar funds that own very similar mining stocks, only in different proportions. Over their history, they've performed almost identically in terms of the returns each has generated for investors. The only significant difference—and it's not terribly significant—is that the stocks that the iShares ETF holds are slightly less expensive, and it offers a slightly larger dividend yield.

To really supercharge your exposure, there are "junior miners." These are small, up-and-coming miners across all phases of the mining process. Some just have a claim on a potentially promising piece of land. Some are nearing the end of the licensing process and will soon have an operational mine producing gold. Some are already producing but are still quite small relative to the Barrick Golds of the world.

At the early stage, their share prices don't move with gold prices but with mile-markers they reach on the road to production. Once they're producing gold, then they begin to track gold prices.

A good example of this is Northern Star Resources, a small Australian miner. In the early 2000s, as Northern Star's predecessors were ramping up for initial production, the shares were trading for between $0.06 and $0.10. By 2012, when gold was hitting a peak, Northern Star was up to $1.36—a profit of nearly 2,200% for investors who snapped up the shares at their lows.

Last year, as gold was reaching a new peak, Northern Star, which now operates several mines, hit $15.36. An investor in 2005 who saw the future for Northern Star and confidently spent $1,000 to own 10,000 shares, was holding stock worth more than $153,000 by the summer of 2020—a 40% annualized return.

Again, that's just an example to illustrate my point. You don't want to own a single junior miner—they're magnitudes riskier than a major goldmining company. Instead, you want to own an ETF that specializes in junior miners.

Two such ETFs to consider are VanEck Vectors Junior Gold Miners (GDXJ) and Sprott Junior Gold Miners (SGDJ). These two ETFs are very different in that Sprott tends to focus on smaller companies and has a more-concentrated list of investments. Longer term, VanEck has outperformed Sprott.

The Wrap Up

Gold will always be a volatile asset to own. Over short periods, it trades on emotion—fear and greed—tied to whatever the news of the day is or what the financial perceptions of that moment are.

Over longer periods, it trades with the economic and financial fundamentals of America's debt situation. And right now, there's not a lot to say that's positive about Uncle Sam's debt.

As the last two decades have demonstrated, gold investors have a keen eye on American debt, concerned that ever-rising levels of indebtedness will, at some point, cause a debilitating crisis for the U.S. dollar.

We will have to wait to see what transpires over the next several years. But once the crisis is clear, buying gold at that point will be substantially more expensive than it is today.

Use this period of relative quiet in the gold market to fortify your financial defenses.